

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
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CINCEUR VAIHINGEN GE

C O N F I D E N T I A L REYKJAVIK 1130

E.O. 11652: GDS
TAGS: PINT, IC
SUBJECT: GOVERNMENT NEGOTIATIONS: IS OPTIMISM A FACADE?

REF: A. REYKJAVIK 1123 DTG 251432Z AUG 78
B. REYKJAVIK 1104 DTG 231443Z AUG 78
C. REYKJAVIK 1077 (NOTAL)

1. UNDER LEADERSHIP OF PROGRESSIVE PARTY (PP) CHAIRMAN
OLAFUR JOHANNESSEN, COALITION NEGOTIATIONS CONTINUED OVER
WEEKEND AMONG REPRESENTATIVES OF PP, SOCIAL DEMOCRATIC PARTY
(SDP) AND PEOPLE'S ALLIANCE (PA). NEW SUBCOMMITTEE WAS CON-
STITUTED TO DISCUSS MATTERS NOT DIRECTLY RELATED TO ECONOMIC
PROBLEMS. AT LEAST PUBLICLY, CHAIRMEN OF ALL THREE PARTIES
CONCERNED APPEAR POTIMISTIC OVER LIKELIHOOD OF FORMING
LEFT-OF-CENTER GOVERNMENT WITHIN FEW DAYS. HOWEVER, DESPITE
UNDENIABLE PROGRESS THAT HAS BEEN MADE IN AREA OF
SHORT-TERM ECONOMIC PROGRAM, COALITION AGREEMENT MAY
STILL ELUDE NEGOTIATORS.

2. ONE REASON IS THAT PROGRESSIVES HAVE BEEN SOMEWHAT
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LESS ACCOMMODATING THAN THEY WERE SHORT TIME AGO NOW
THAT JOHANNESSEN HAS RECEIVED MANDATE AND SDP AND PA
HAVE EACH FAILED TO FORM GOVERNMENT. ALSO, JOHANNE-
SSON REPORTEDLY WANTS TO MAKE SHORT-TERM
PROGRAM (REF B) BASIS FOR PROPOSED COALITION'S ECONOMIC
POLICY RATHER THAN ATTEMPT TO FORMULATE LONG-TERM
ECONOMIC PROGRAM. SOCIAL DEMOCRATS WANT SOMETHING MORE

SUBSTANTIAL, AND ON THIS POINT THEY SEEM TO HAVE SUPPORT OF PA.

3. ANOTHER COMPLICATING FACTOR IN CURRENT TALKS IS THAT PEOPLE'S ALLINACE AND SDP WERE BROUGHT BACK TO NEGOTIATING TABLE CHIEFLY THROUGH EFFORTS OF ORGANIZED LABOR. EVEN SINCE THEN, PA HAS BEEN CAREFUL TO GUARD ITS LABOR FLANK. THIS GROUP FINDS JOHANNESSON ANATHEMA. PP HAS VIRTUALLY NO SUPPORT IN LABOR MOVEMENT, AND JOHANNESSON IS PERSONALLY BLAMED FOR HIS PART IN WRITING FEBRUARY LAW WHICH LIMITED WORKERS' COST-OF-LIVING WAGE INCREASES. LABOR WINGS OF BOTH PA AND SDP MAY THEREFORE FIND JOHANNESSON UNACCEPTABLE COMPROMISE AS CANDIDATE FOR PRIME MINISTERSHIP.

4. SOCIAL DEMOCRATS, BEYOND THEIR OBJECTIONS TO PP LEADERSHIP NOTED REF A, HAVE FOUND JOHANNESSON RELUCTANT TO DISCUSS OTHER MATTERS THEY CONSIDER IMPORTANT. ELECTORAL AND CONSTITUTIONAL REFORM, AGRICULTURAL POLICY, ELIMINATION OF RURAL PORK BARREL PROJECTS, AND OTHER PROGRAM OBJECTIVES DEAR TO HEART OF SDP HAVE SO FAR BEEN GIVEN SHORT SHRIFT BY PP IN DISCUSSIONS. JOHANNESSON'S EFFORTS TO WRAP UP NEGOTIATIONS QUICKLY AND HIS CALL FOR "EMERGENCY GOVERNMENT" LIMITED ONLY TO DEALING WITH ECONOMY MAY BE ATTEMPT TO BURY MANY CONFIDENTIAL

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ISSUES PP FINDS UNPLEASANT. ALTHOUGH SDP, LIKE OTHER PARTIES, GIVES PRIORITY TO ECONOMIC MATTERS, IT IS UNWILLING TO GIVE UP ITS OTHER INTERESTS WITHOUT A FIGHT.

5. SEPTEMBER 1 DATE REMAINS CRITICAL (REF C), WITH FOUR DAYS TO GO QUESTION OF WHETHER A NEW GOVERNMENT WILL BE IN PLACE BY THEN IS BY NO MEANS ANSWERED. CLUE TO UNCERTAINTY OF OUTCOME OF CURRENT TALKS IS HINT THAT INCUMBENT CARETAKER GOVERNMENT MAY ALREADY HAVE DECIDED TO DEVALUE KRONA THIS WEEK (FOREIGN EXCHANGE WINDOWS CLOSED AUGUST 28). SEPTTEL FOLLOWS ON POSSIBLE DEVALUATION.
BLAKE

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